ARTHUR ANDERSEN

Mississippi Home Corporation

Financial Statements
As of June 30, 2001 and 2000
Together With Auditors' Report and
Report of Independent Public Accountants
On Compliance and Internal Controls

MISSISSIPPI HOME CORPORATION

FINANCIAL STATEMENTS AND SCHEDULES

JUNE 30, 2001 AND 2000

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ARTHUR ANDERSEN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Mississippi Home Corporation:

We have audited the accompanying combined balance sheets of **Mississippi Home Corporation** (the Corporation, an instrumentality of the State of Mississippi) as of June 30, 2001 and 2000, and the related combined statements of revenues, expenses and changes in fund balance, and cash flows for the years then ended. These combined financial statements and the schedules referred to below are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards for financial audits contained in *Government Auditing Standards* (1994 Revision) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mississippi Home Corporation as of June 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information presented in Schedules 1, 2 and 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Corporation's internal controls over financial reporting and its compliance with certain provisions of laws, regulations, contracts and grants dated October 3, 2001.

Arthur Andersen LLP

Jackson, Mississippi
October 3, 2001

MISSISSIPPI HOME CORPORATION

COMBINED BALANCE SHEETS

JUNE 30, 2001 AND 2000

ASSETS	2001	2000
Cash and cash equivalents:		
Cash	**$ 412,851**	$ 325,598
Restricted cash	**6,747,894**	3,618,248
Cash equivalents	**1,195,886**	259,634
Restricted cash equivalents	**64,547,062**	31,006,216
Total cash and cash equivalents	**72,903,693**	35,209,696
Accrued interest receivable	**3,809,404**	3,591,375
Investments, at fair value:		
Mortgage-backed securities	**489,826,410**	446,707,440
Other investments	**16,519,395**	16,862,468
Mortgage loans receivable, net of allowance for loan losses of $1,231,000 in 2001 and $1,234,000 in 2000	**23,450,274**	31,965,804
Unamortized bond issuance costs	**6,247,720**	5,713,604
Other assets	**6,391,603**	6,998,141
Total assets	**$619,148,499**	$547,048,528
LIABILITIES		
Bonds payable, net of premium or discount	**$539,087,462**	$484,127,390
Notes payable	**12,475,977**	15,580,190
Accrued interest payable	**3,444,086**	3,529,442
Deferred gains	**2,158,085**	2,285,879
Other liabilities and accrued expenses	**3,610,365**	2,696,673
Total liabilities	**560,775,975**	508,219,574
FUND BALANCE	**58,372,524**	38,828,954
Total liabilities and fund balance	**$619,148,499**	$547,048,528

The accompanying notes are an integral part of these statements.

MISSISSIPPI HOME CORPORATION

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE

FOR THE YEARS ENDED JUNE 30, 2001 AND 2000

	2001	2000
REVENUES		
Interest income:		
Cash and cash equivalents	**$ 4,894,396**	$ 3,795,885
Mortgage-backed securities	**32,161,665**	31,078,563
Other investments	**1,387,099**	1,151,587
Mortgage loans receivable	**2,217,921**	3,370,586
Total interest income	**40,661,081**	39,396,621
Net appreciation (depreciation) in fair value of mortgage-backed securities	**15,638,187**	(13,065,923)
Reservation fees	**463,015**	262,764
Low income housing tax credit program	**1,223,330**	752,686
Other income	**458,928**	430,714
Total revenues	**58,444,541**	27,776,862
EXPENSES		
Interest expense	**34,382,242**	33,892,261
Amortization of bond issuance costs	**856,661**	1,049,559
Trust and administration fees	**160,363**	190,389
Mortgage related insurance	**72,330**	116,968
Losses on mortgage loans	**175,626**	670,179
Administrative expenses:		
Salaries and related benefits	**1,738,155**	1,470,929
Other	**1,515,594**	1,532,533
Total expenses	**38,900,971**	38,922,818
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	**19,543,570**	(11,145,956)
FUND BALANCE, beginning of year	**38,828,954**	49,974,910
FUND BALANCE, end of year	**$ 58,372,524**	$ 38,828,954

The accompanying notes are an integral part of these statements.

MISSISSIPPI HOME CORPORATION

COMBINED STATEMENTS OF CASH FLOWS

JUNE 30, 2001 AND 2000

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess (deficiency) of revenues over expenses	**$ 19,543,570**	$ (11,145,956)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:		
Amortization of:		
Bond issuance costs	**856,661**	1,049,559
Discounts and premiums on bonds payable, net	**(246,938)**	(131,325)
(Increase) decrease in:		
Accrued interest receivable	**(218,029)**	581,463
Other assets	**559,268**	(860,491)
Increase (decrease) in:		
Accrued interest payable	**(91,656)**	(782,185)
Deferred gains	**(127,794)**	(127,794)
Other liabilities and accrued expenses	**919,992**	390,559
Increase (decrease) in allowance for losses on mortgage loans	**(2,506)**	630,837
Unrealized (gains) losses on investments	**(15,638,187)**	13,065,923
Accretion of bond discount, net	**171,250**	561,185
Depreciation	**241,185**	224,140
Net cash provided by operating activities	**5,966,816**	3,455,915
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and redemptions of mortgage-backed securities	**50,233,937**	44,916,245
Purchases of mortgage-backed securities	**(77,780,618)**	(93,978,274)
Proceeds from maturities of investments	**13,477,275**	9,557,274
Purchases of investments	**(13,119,090)**	(13,821,152)
Mortgage loan repayments	**4,988,612**	7,816,381
Proceeds from sale of mortgage loans	**6,191,060**	3,942,802
Down payment assistance and development loans originated	**(2,661,636)**	(1,887,956)
Net cash used in investing activities	**(18,670,460)**	(43,454,680)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Proceeds from sales of bonds	**116,469,961**	38,754,802
Repayment of bonds	**(61,383,414)**	(61,222,852)
Proceeds from notes payable	**30,880,000**	26,920,000
Principal payments on notes payable	**(33,883,285)**	(28,786,229)
Bond issuance costs paid	**(1,390,777)**	(460,569)
Other	**0**	(245,371)
Net cash provided by (used in) non-capital financing activities	**50,692,485**	(25,040,219)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Property, plant and equipment additions	**(193,916)**	(543,385)
Principal payments on notes payable	**(100,928)**	(93,388)
Net cash used in capital financing activities	**(294,844)**	(636,773)
Net increase (decrease) in cash and cash equivalents	**37,693,997**	(65,675,757)
CASH and CASH EQUIVALENTS, **beginning of year**	**35,209,696**	100,885,453
CASH and CASH EQUIVALENTS, **end of year**	**$ 72,903,693**	$ 35,209,696

The accompanying notes are an integral part of these statements.

MISSISSIPPI HOME CORPORATION

NOTES TO COMBINED FINANCIAL STATEMENTS AND SCHEDULES

JUNE 30, 2001 AND 2000

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Mississippi Home Corporation (the Corporation), formerly known as the Mississippi Housing Finance Corporation, is a governmental instrumentality of the State of Mississippi (the State) created under the Mississippi Home Corporation Act of 1989 (the Act). Pursuant to the Act, the Corporation is authorized and empowered, among other things, to issue bonds to provide monies for financing residential housing and provide other services in regard to housing for persons and families of low and moderate income in the State. Bonds and other obligations issued by the Corporation are not a debt or liability of the State, but are secured solely by assets of the individual mortgage purchase programs. The reporting entity includes the Corporation (the primary government entity) and the Mississippi Affordable Housing Development Fund (see Note 6) for which the Corporation is primarily accountable.

Members of the Board of Directors of the Corporation are appointed by the Governor and the Lieutenant Governor of the State. The appointed members serve four-year staggered terms and cannot be removed without cause. The Board controls the appointment of the Executive Director, who is responsible for the staffing of the Corporation. The State assumes no responsibility for the Corporation's day-to-day operations. The Board is solely responsible for reviewing, approving and revising the Corporation's budget. The State is not responsible for financing any Corporation deficit or operating deficiencies. The Corporation controls the use of surplus funds.

Accounting Method

The accounting and reporting policies of the Corporation conform with generally accepted accounting principles. As required by these principles, the Corporation has applied all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989. Additionally, the Corporation has elected to apply all applicable FASB Statements and Interpretations issued after November 30, 1989, to the extent that they do not conflict with or contradict GASB pronouncements.

The Corporation's accounts are organized on the basis of separate enterprise funds, each of which is considered to be a separate accounting entity with a separate set of self-balancing accounts that comprise the assets, liabilities, fund balance, revenues and expenses of the individual mortgage purchase programs, the down payment assistance program, the Mississippi Affordable Housing Development Fund and the general corporate fund. Enterprise funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is on determining net income and capital maintenance.

The accompanying financial statements present the combined activities of the individual mortgage purchase programs, the down payment assistance program, the Mississippi Affordable Housing Development Fund and the general corporate fund. Since the assets of each program are generally restricted, aggregating the accounts of the separate programs does not indicate that the combined assets are available in any manner other than that provided for in the bond resolutions or other agreements of the separate programs. All inter-fund balances and transactions have been eliminated in the combined financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include general corporate fund cash, general corporate fund investments with original maturities of less than three months and unrestricted cash in certain other funds.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consists of proceeds from the sales of bonds pending the purchase of Government National Mortgage Association Mortgage Backed Securities (GNMA securities or certificates) and the principal and interest payments of the GNMA securities. These funds are held in guaranteed investment contracts. The indentures of the respective mortgage purchase programs stipulate that these funds may be used only for the acquisition of GNMA securities or the early redemption of the respective mortgage revenue program bonds outstanding.

Mortgage Loans Receivable, GNMA Certificates and Investments

Mortgage loans are generally secured by first liens on single-family residential properties. Proceeds from certain bond issues not invested in individual mortgages are principally invested in GNMA certificates, representing pools of mortgage loans originated under the respective programs. Principally all loans purchased by the Corporation are insured by the Federal Housing Authority (FHA) or private mortgage insurance, are Veterans' Administration (VA) or Farmer's Home Administration (FmHA) guaranteed, or have a loan-to-fair value ratio of 80% or less at origination. Additionally, each mortgage loan in the 1994-I and 1993B Programs is insured by a pool insurance policy, subject to certain limitations on uncovered losses. Pool policy loss limits for the 1994-I and 1993B Programs are 15% and 20%, respectively, of the initial aggregate principal amounts of all mortgage loans purchased with proceeds of the related bonds.

FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Loans and bonds are valued at their carrying amounts, which approximate par value, due to the structured financing characteristics of the Corporation's bond issues. Mortgage rates on loans originated, and subsequently securitized into GNMA certificates, from bond proceeds are based directly on the bond rates established at the time of issuance. The GNMA certificates are specifically identified with a particular bond issue and pledged under the applicable trust indenture. Any changes in market interest rates subsequent to bond issuance and loan origination would be expected to equally effect the fair redemption associated with mortgage prepayments. The Corporation is restricted under various trust indentures from selling GNMA certificates at a value which would impair its ability to service the bonds to which those certificates are specifically pledged.

Allowance for Losses on Mortgage Loans

Losses incurred on mortgage loans are charged to the allowance for losses on mortgage loans (the allowance). The allowance is charged to expense when, in management's opinion, the realization of all or a portion of the loans or recovery on properties owned is doubtful.

In evaluating the allowance, management considers the age of the various loans, the relationship of the allowances to outstanding mortgage loans, collateral values, insurance claims and economic conditions.

Management of the Corporation believes that the allowance is adequate. While management uses available information to recognize losses on mortgage loans, future additions to the allowance may be necessary based on changes in economic conditions.

Cash Flows

Cash paid for interest during fiscal years ended June 30, 2001 and 2000, totaled $34,437,493 and $34,275,039, respectively.

Unamortized Bond Issuance Costs, Discounts and Premiums

Costs related to the issuance of bonds are capitalized in the respective bond issues and amortized over the term of the bonds. During the years ended June 30, 2001 and June 30, 2000, $1,390,777 and $460,569 of issuance costs were capitalized. In addition, discounts and premiums on the sale of bonds are deferred and amortized over the life of the bonds. Prepayments of principal are not anticipated in amortizing bond issuance costs, bond discounts, or bond premiums.

Reservation Fees

Reservation fees are those fees paid to the Corporation by banks within the State to reserve their respective allocation of bond proceeds or Downpayment Assistance Funds for the purpose of originating mortgage loans under the program. These reservation fees, all of which are non-refundable, are recognized as income when received.

Income Taxes

As a tax-exempt, quasi-governmental organization created by legislative statute, the Corporation is exempt from Federal and State income taxes. Accordingly, no provision for income taxes has been included in the combined financial statements.

Deferred Gains

Gains resulting from the substitution of collateral in defeasance trusts and the sale of the Corporation's right to residual assets in defeasance trusts are deferred and amortized as a component of interest expense over the lives of the defeased bonds using the bonds outstanding method.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made, none of which effect excess of revenues over expenses, to conform prior year information to the current year presentation.

Recent Pronouncements

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. The Corporation is required to adopt this statement for the fiscal year ended June 30, 2003. Adoption of this statement will enhance disclosure and is not expected to have a significant impact on the results of operations or financial position of the Corporation.

In addition, in June 2001, the GASB issued Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus - an amendment of GASB Statements No. 21 and No. 34*. Concurrently, the GASB also issued Statement No. 38, *Certain Financial Statement Note Disclosures*. These two statements clarify, modify, establish and rescind certain disclosure requirements under GASB Statement No. 34. Both Statements are required to be implemented in conjunction with GASB Statement No. 34. These statements are not expected to have a significant impact on the results of operations or financial position of the Corporation.

2. CASH EQUIVALENTS AND INVESTMENTS:

The Corporation is authorized by Mississippi statute, subject to any agreement with bondholders or note holders, to invest in the following:

- Direct obligations of or obligations guaranteed by the United States;
- Bonds, debentures, notes or other evidence of indebtedness issued by U.S. Government agencies;
- Direct and general obligations of the State;
- Repurchase agreements secured by collateral;
- Investment contracts or agreements with entities rated "A" or better by a nationally recognized rating agency; and,
- Certificates of deposit or time deposits of qualified depositories and money market funds.

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires that certain investments be reported at fair value in the financial statements, with unrealized gains or losses being reported in the earnings of the current period. Money market investments, guaranteed investment contracts and other highly liquid investments with no stated maturity, are considered cash equivalents and are reported at amortized cost.

Governmental accounting standards also require that the carrying amounts of cash and investments as of the balance sheet date be categorized according to the level of credit risk associated with the Corporation's cash and cash equivalents and investments at that time. The level of credit risk is defined as follows:

Category 1 - Insured (including government securities) or registered with securities held by the Corporation or its agent in the Corporation's name.

Category 2 - Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the Corporation's name.

Category 3 - Uninsured and unregistered, with securities held by the counter-party or by its trust department or agent but not in the Corporation's name.

A summary of cash and cash equivalents as of June 30, 2001 and 2000, by category follows:

	2001	2000
Category 1	**$ 412,851**	$ 325,598
Category 3	**72,490,842**	34,884,098
Total	**$72,903,693**	$35,209,696

2. CASH EQUIVALENTS AND INVESTMENTS (Cont.):

A summary of the amortized cost and estimated fair value of investments by category follows:

	Amortized Cost	**Estimated Fair Value**
June 30, 2001:		
Category 1:		
U.S. Government agency Securities	**$ 11,443,432**	**$ 11,519,395**
GNMA mortgage-backed Securities	**485,108,321**	**489,826,410**
	496,551,753	**501,345,805**
Category 3:		
Commercial agreements	**5,000,000**	**5,000,000**
	$501,551,753	**$506,345,805**

	Amortized Cost	Estimated Fair Value
June 30, 2000:		
Category 1:		
U.S. Government agency Securities	$ 11,801,617	$ 11,862,468
GNMA mortgage-backed Securities	456,436,478	446,707,440
	468,238,095	458,569,908
Category 3:		
Commercial agreements	5,000,000	5,000,000
	$473,238,095	$463,569,908

The fair value of securities collateralizing repurchase agreements approximated the carrying value of repurchase agreements at June 30, 2001 and 2000.

FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities,* and FASB Statement No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities - An Amendment of FASB Statement No. 133* require all derivative instruments as defined to be reported at fair value in the Combined Balance Sheets, with adjustments to fair value being recorded in current period earnings. The Corporation is party to one contract which meets the definition of a derivative. Under the terms of this contract MHC granted Security Life Insurance Company (Security Life) the option to purchase the GNMA securities held in Trust under the 1989 Mortgage Revenue Bond Issue on any date from October 15, 1999 to October 15, 2018. In exchange for this option, Security Life paid MHC 1% of the GNMA balance outstanding at the date of the contract. The contract is recorded on the balance sheet at carrying value, which based on current market conditions, approximates its fair value. As such, no market value adjustment is recorded in the Corporation's income statements for the periods presented.

The accounting treatment required under GASB Statement No. 31, causes changes in the interest rate environment to have a significant impact on the Corporation’s Excess of Revenues over Expenses. Volatility in the interest rate environment in 2001 and 2000 caused extreme fluctuations in the Corporation’s reported earnings. Management expects the volatility in interest rates and earnings to continue in the future. The effect of the unrealized gains and losses recorded as a function of this volatility for the years ended June 30, 2001 and 2000 is as follows:

	2001	2000
Revenues in excess of expenses(before unrealized gains or losses)	**$ 3,905,383**	$ 1,919,967
Net unrealized gains (losses)	**15,638,187**	(13,065,923)
Revenues in excess of expenses (as reported)	**$19,543,570**	$(11,145,956)

3. BONDS PAYABLE:

Bonds payable for the mortgage purchase programs follow:

Description	2001	2000
1988 series bonds – 7.300% to 7.800% interest payable semiannually, principal due through October 15, 2016	**$ 3,485,000**	$ 4,625,000
1989 series bonds – 8.000% to 8.250% interest payable semiannually, principal due through October 15, 2018	**16,030,000**	18,910,000
1990A series bonds – 9.250% interest payable semiannually, principal due through March 1, 2012	**0**	6,235,000
1990B series accretion bonds – effective interest rate 8.750%, principal due through September 1, 2012	**0**	1,188,914
1990-I series accretion bonds – effective interest rate 7.980%, principal due through October 1, 2022	**0**	3,422,190
1992A series bonds – 6.150% to 7.500% interest payable semiannually, principal due through May 1, 2023	**3,595,000**	4,375,000
1992B series bonds – 6.500% interest payable semiannually, principal due through December 1, 2024	**5,920,000**	6,375,000
1993B series accretion bonds – effective interest rate 7.196% to 7.552%, principal due through December 1, 2012	**0**	2,101,223
1994A series bonds – 5.000% to 6.900% interest payable semiannually, principal due through June 1, 2024	**4,835,000**	5,660,000
1994B series bonds – 6.000% to 7.900% interest payable semiannually, principal due through March 1, 2025	**7,300,000**	8,645,000
1994C series bonds – 5.450% to 8.125% interest payable semiannually, principal due through December 1, 2024	**3,675,000**	4,380,000
1994D series bonds – 5.600% to 8.100% interest payable semiannually, principal due through December 1, 2024	**4,280,000**	4,850,000
1994E series bonds – 5.600% to 8.100% interest payable semiannually, principal due through December 1, 2025	**3,800,000**	4,650,000
1994F series bonds – 6.150% to 7.450% interest payable semiannually, principal due through December 1, 2026	**5,295,000**	5,995,000
1994-I series bonds – 8.680% to 9.150% interest payable semiannually, principal due through September 15, 2014	**7,303,138**	9,314,212
1995B series bonds – 6.550% to 7.850% interest payable semiannually, principal due through April 1, 2027	**8,065,000**	9,120,000
1995D series bonds – 6.520% to 7.800% interest payable semiannually, principal due through November 1, 2027	**17,270,000**	19,945,000

3. BONDS PAYABLE (Cont.):

Description	2001	2000
1995G series bonds – 6.100% interest payable semiannually, principal due through June 1, 2016	**$ 0**	$ 1,525,000
1995H series bonds – 6.250% interest payable semiannually, principal due through December 1, 2026	**14,980,000**	15,530,000
1995I series bonds – 5.900% interest payable semiannually, principal due through June 1, 2017	**1,475,000**	1,645,000
1995J series bonds – 5.400% to 6.125% interest payable semiannually, principal due through June 1, 2027	**18,290,000**	20,390,000
1996C series bonds – 5.500% to 7.600% interest payable semiannually, principal due through June 1, 2029	**20,665,000**	23,220,000
1996E series bonds – 4.800% to 5.500% interest payable semiannually, principal due through December 1, 2007	**0**	2,370,000
1996F series bonds – 6.000% to 7.550% interest payable semiannually, principal due through December 1, 2027	**19,565,000**	20,140,000
1996H series bonds – 4.350% to 5.550% interest payable semiannually, principal due through December 1, 2010	**860,000**	3,405,000
1996I series bonds – 5.200% to 7.375% interest payable semiannually, principal due through June 1, 2029	**15,505,000**	15,505,000
1997A series bonds – 6.850% interest payable semiannually, principal due through December 1, 2020	**0**	1,835,000
1997B series bonds – 4.500% to 5.600% interest payable semiannually, principal due through June 1, 2011	**1,020,000**	1,320,000
1997C series bonds – 5.550% to 7.200% interest payable semiannually, principal due through June 1, 2028	**16,270,000**	16,270,000
1997D series bonds – 5.800% to 7.750% interest payable semiannually, principal due through July 1, 2012	**20,446,608**	23,396,509
1997G series bonds – 5.250% to 6.930% interest payable semiannually, principal due through November 1, 2029	**24,049,045**	25,895,927
1997H series bonds – 5.350% to 6.830% interest payable semiannually, principal due through December 1, 2029	**19,215,592**	21,816,168
1998A series bonds – 5.125% to 6.560% interest payable semiannually, principal due through June 1, 2030	**32,102,271**	35,161,581
1998B series bonds – 5.100% to 6.250% interest payable semiannually, principal due through June 1, 2030	**26,380,000**	27,950,000
1998C series bonds – 4.900% to 6.350% interest payable semiannually, principal due through December 1, 2030	**24,216,102**	25,899,622

3. BONDS PAYABLE (Cont.):

Description	2001	2000
1999A series bonds – 4.800% to 6.630% interest payable semiannually, principal due through June 1, 2031	**38,845,000**	40,535,000
1999B series bonds - 4.100% to 5.650% interest payable semiannually, principal due through June 1, 2027	**11,265,000**	11,795,000
1999B series accretion bonds – effective interest rate 5.800%, principal due through December 1, 2030	**847,087**	800,661
1999C series bonds – 5.450% to 7.260% interest payable semiannually, principal due through June 1, 2031	**24,235,000**	25,450,000
2000A series bonds – 4.350% to 6.950% interest payable semiannually, principal due through December 1, 2031	**54,350,000**	0
2001A series bonds – 3.850% to 6.500% interest payable semiannually, principal due through June 1, 2032	**60,000,000**	0
	535,434,843	481,647,007
Unamortized premiums and deferred refunding losses, net	**3,652,619**	2,480,383
	$539,087,462	$484,127,390

A summary of contractual bond maturities as of June 30, 2001 follows:

	Year ended June 30,						Discount on Appreciation	
Program:	2002	2003	2004	2005	2006	Thereafter	Bonds	Total
1988	$130,000	$ 130,000	$ 65,000	$ 0	$ 0	$ 3,160,000	$ 0	$ 3,485,000
1989	0	0	0	1,635,000	0	14,395,000	0	16,030,000
1992A	115,000	120,000	60,000	0	0	3,300,000	0	3,595,000
1992B	190,000	125,000	0	0	0	5,605,000	0	5,920,000
1994A	0	0	115,000	0	0	4,720,000	0	4,835,000
1994B	0	0	0	300,000	0	7,000,000	0	7,300,000
1994C	45,000	50,000	30,000	0	0	3,550,000	0	3,675,000
1994D	55,000	60,000	60,000	15,000	0	4,090,000	0	4,280,000
1994E	40,000	45,000	50,000	25,000	0	3,640,000	0	3,800,000
1994F	50,000	50,000	60,000	30,000	0	5,105,000	0	5,295,000
1994-I	0	0	0	0	0	7,303,138	0	7,303,138
1995B	0	0	0	0	0	8,065,000	0	8,065,000
1995D	0	0	0	0	0	17,270,000	0	17,270,000
1995G&H	0	0	0	0	0	14,980,000	0	14,980,000
1995I&J	0	0	0	0	0	19,765,000	0	19,765,000
1996C	0	0	0	0	0	20,665,000	0	20,665,000
1996E&F	0	0	0	0	0	19,565,000	0	19,565,000
1996H&I	65,000	75,000	80,000	85,000	85,000	15,975,000	0	16,365,000
1997A,B&C	85,000	85,000	95,000	100,000	105,000	16,820,000	0	17,290,000
1997D	0	0	0	0	0	20,446,608	0	20,446,608
1997G	0	0	0	0	0	24,049,045	0	24,049,045
1997H	0	0	0	0	0	19,215,592	0	19,215,592
1998A	0	0	0	0	0	32,102,271	0	32,102,271
1998B	0	0	0	0	0	26,380,000	0	26,380,000
1998C	0	0	0	0	0	24,216,102	0	24,216,102
1999A	0	0	0	0	0	38,845,000	0	38,845,000
1999B	185,000	195,000	200,000	210,000	230,000	14,805,000	(3,712,913)	12,112,087
1999C	0	0	0	0	0	24,235,000	0	24,235,000
2000A	0	460,000	500,000	540,000	815,000	52,035,000	0	54,350,000
2001A	0	0	0	0	0	60,000,000	0	60,000,000
Totals	$960,000	$1,395,000	$1,315,000	$2,940,000	$1,235,000	$531,302,756	$(3,712,913)	$535,434,843

The Corporation has the option to redeem bonds after they have been outstanding for 10 years at initial prices ranging from 102% to 105% of par and subsequently at prices declining to par, except for the 1990B, 1990-I, 1993B, and 1994-I series bonds. The 1994-I series bonds are redeemable after 10 years at 100% provided that at the redemption date no more than 20% of the original principal amount is outstanding. Certain extraordinary redemptions, as governed by the bond resolutions, are permitted prior to the foregoing redemption dates.

The bonds are secured, as described in the applicable bond resolution, by a pledge of the revenues, monies, investments, mortgage loans and other assets of the applicable programs. Management believes that, for the years ended June 30, 2001 and 2000, the Corporation has complied with all significant bond covenants.

4. NOTES PAYABLE:

The Corporation has a $1,870,185 note payable to Trustmark National Bank for the purchase of a building. This note bears interest at 7.25% and is due November 2002.

In November 2000, the Corporation entered into an agreement to issue up to $50,000,000 in convertible program notes, secured by U.S. Treasury securities. The notes bear interest at a rate equal to 95% of the 30-day U.S. Treasury rate. The agreement is due to expire in December 2001. At June 30, 2001, $10,530,000 is outstanding under this agreement. The remainder, $27,820,000, is available for the purpose of refunding the maturing principal or redemption price, as the case may be, of a portion of certain outstanding bonds of the Corporation.

The remaining notes payable are attributable to amounts borrowed from banks to fund loans in the Down Payment Assistance Program. These loans, totaling $75,792, bear interest at 7.25%, and mature in April and May of 2003.

5. EXCESS EARNINGS:

For all of the mortgage purchase programs except the 1993B, 1994-I, 1995A, and 1995C Programs, Federal tax regulations require that earnings on investments of bond proceeds in excess of the yield on the bonds (as defined in the regulations and subject to certain adjustments) be periodically computed and paid to either the United States or to the mortgagors. In certain instances, the bond resolutions require such excess earnings to be paid to the mortgagors. At June 30, 2001 and 2000, the Corporation determined that no significant liability exists for excess earnings in any of the programs; however, this determination is subject to ongoing evaluation.

6. MISSISSIPPI AFFORDABLE HOUSING DEVELOPMENT FUND:

The Corporation is responsible for management of the Mississippi Affordable Housing Development Fund. The Fund was established by the State as a housing development revolving loan fund to provide resources for loans for the construction or repair of housing for persons or families of low to moderate income in the State using $1,997,952 in proceeds received from the Mississippi Development Authority (MDA) in 1995 and $5,991,893 in proceeds obtained directly from the State in 1996. The Corporation is responsible for all aspects of the Fund, including developing lending criteria, establishing interest rates, and loan approval, servicing and reporting. Loan repayments are required to be returned to the Fund for use in granting new loans. Interest collected on the loans granted with the proceeds received from MDA is required to be returned to the Fund for use in granting new loans and interest collected on the loans granted with the proceeds received from the State is required to be returned to the State. Costs incurred by the Corporation for administering the Fund are not reimbursed to the Corporation.

7. LOW INCOME HOUSING TAX CREDIT PROGRAM:

The Corporation has been designated as the allocating agency for the Low Income Housing Tax Credit Program (the Tax Credit Program). The U.S. Congress created the Tax Credit Program in 1986 to encourage investment in the construction and rehabilitation of housing units for low and moderate-income individuals and families. The Corporation has adopted a Low Income Housing Tax Credit Program Qualified Allocation Plan (the Plan), which provides for an application process, project evaluation selection criteria and compliance requirements. Receipts under the Tax Credit Program represent fees earned for administering the Tax Credit Program and are not restricted under the terms of the Plan or the Tax Credit Program.

8. DOWN PAYMENT ASSISTANCE PROGRAM:

The Corporation's down payment assistance program provides loans to qualified borrowers for down payments and allowable loan closing costs on purchases of the borrowers' primary residence. The qualification requirements are generally the same as those of the respective mortgage loan programs under which the primary mortgage loans are made. The down payment assistance loans generally have 10 year terms, have rates which approximate those of the primary mortgages, are secured by second mortgages on the residences, and generally do not exceed $3,500 per loan.

9. BOND DEFEASANCES:

The Corporation defeases various bond issues by creating separate irrevocable trust funds. New debt is issued and the proceeds used to purchase U.S. government securities that are placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the Corporation's Combined Balance Sheets. The amount of defeased debt outstanding approximated $113,576,733 and $102,878,800 at June 30, 2001 and June 30, 2000, respectively.

10. DEFINED BENEFIT PENSION:

The Corporation contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. This information may be obtained by contacting PERS.

PERS members are required to contribute 7.25% of their annual covered salary and the Corporation is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State Legislature. The Corporation's contribution requirement for the years ended June 30, 2001 and 2000 was approximately $237,000 and $206,600, which consisted of $135,900 and $118,500 from the Corporation and $101,100 and $88,100 from employees, respectively.

The Corporation's 38 participating employees are an insignificant portion of PERS total 313,000 participants.

11. DEFERRED COMPENSATION PLAN:

The State offers its employees a multiple-employer, deferred compensation plan created in accordance with Internal Revenue Code Section 457. The term "employee" means any person, whether appointed, elected, or under contract, providing services for the State, State agencies, counties, municipalities, or other political subdivisions, for which compensation is paid. The plan permits employees of the Corporation to defer a portion of their income until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the employer (without being restricted to the provisions of benefits under the plan), subject only to the claims of the general creditors of those entities which employ deferred compensation participants. Participants' rights under the plan are the same as those of general creditors in an amount equal to the fair market value of the deferred account for each participant. The Corporation believes that it has no liabilities with respect to the State's plan.

12. CONDUIT ISSUES:

The Corporation has issued certain conduit multi-family housing revenue bonds, the proceeds of which were made available to various developers for rental housing. As of June 30, 2001, $34,250,000 of these bonds was outstanding. The bonds are payable solely from amounts received by the trustees from the revenue earned by the developers. Loan and corresponding debt service payments are guaranteed by irrevocable direct-pay letters of credit. The faith and credit of the Corporation is not pledged for the payment of the principal or interest on the bonds. Accordingly, these obligations are excluded from the Corporation’s financial statements.

13. SUBSEQUENT EVENTS:

On July 6, 2001, the Corporation sold the mortgage loans in the 1993B Program at a 1% premium. The corporation recognized a gain of approximately $65,000 on this transaction.

On September 14, 2001, the Corporation issued $26,275,000 of Single Family Mortgage Revenue bonds, titled Series 2001BC. This series is comprised of $5,350,000 of serial bonds and $20,925,000 of term bonds, which bear interest at 3.100% to 4.750% and 4.000% to 6.375%, respectively.

ARTHUR ANDERSEN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE AND INTERNAL CONTROLS

To the Board of Directors
of Mississippi Home Corporation:

We have audited the financial statements of **Mississippi Home Corporation** (the Corporation), as of and for the years ended June 30, 2001 and 2000, and have issued our report thereon dated October 3, 2001. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Corporation's internal controls over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal controls over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors and the Corporation's management. However, this report is a matter of public record and its distribution in not limited.

Arthur Andersen LLP

Jackson, Mississippi
October 3, 2001